Invesco Global Targeted Returns

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

The strategy is a fundamental, unconstrained, global macro style approach focused on blending a diversified, value-adding set of investment ideas into a single risk-managed portfolio. It aims to achieve a positive total return in all market conditions, targeting a gross return of cash + 5% p.a. with less than half the volatility of global equities over rolling three-year periods.

The strategy invests in an underlying fund that is hedged to Australian dollars. This underlying fund may invest in shares, equity related securities, debt securities, real estate investment trusts (REITs), ETFs and other funds, cash and cash equivalents, money market instruments, and any other eligible instrument that could include indirect exposure to commodities. This exposure to the major asset classes can be taken via long and short positions in the underlying fund, both directly and indirectly. The underlying fund's use of derivatives will create economic leverage (not financial leverage) which under normal market circumstances is typically expected to range between 100% to 350%. The underlying fund's use of derivatives may include exchange traded or OTC derivatives on currencies, interest rates, credit, commodity indices, other eligible indices or equities.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Alternatives
Suggested Investment timeframe	3-5 years
Relative risk rating	6 / High
Investment style	Global Macro
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Multi-Assets	100	100

Regional Allocation	%
Germany	10.50
United States	10.24
Canada	7.47
Mexico	6.34
France	6.14
Asia	5.93
United Kingdom	5.90
Europe	4.83
Japan	4.14
China Offshore	3.32
Australia	3.25
Russia	3.25
Brazil	2.95
Sweden	2.66
Chile	2.55
Other	20.53

Top Holdings	%
Equity - Global	8.7
Interest Rates - Yield Compression	5.4
Commodity - Commodity Short	5.3
Interest Rates - Selective EM Debt	5.0
Interest Rates - Global Yield Curves	4.9
Equity - US Staples vs Discretionary	4.7
Inflation - Short UK	4.2
Interest Rates - US Swap Spreads	4.1
Equity - Short European Insurers vs Market	4.0
Equity - Selective Asia Exposure	3.8

Portfolio Summary

- The strategy was positive over the quarter - with contributions coming from a broad range of ideas.

- During the quarter, the team added three new ideas to the portfolio, removed six ideas and made significant changes to the implementation of six ideas.

Investment Option Commentary

Performance was positive over the quarter with contributions coming from a broad range of ideas. Invesco's 'Equity – Global' idea was a top contributor over the period. This idea benefited from a number of factors, as stock selection and market exposure to US, global and global energy indices contributed positively. Inflation data for the UK was lower than expected during the fourth quarter, which led future inflation expectations to fall, helping the 'Inflation – Short UK' idea perform strongly.

The market's preference for riskier assets also helped the Fund Manager's 'Interest Rates – Selective EM Debt' idea, as Mexican government debt rallied into the year end. Another emerging market idea to do well was their preference for the Polish zloty to the euro with the zloty also moving higher into year end.

On the downside, several interest rate ideas underperformed as yields rose. The 'Interest Rates - Global Yield Curves' idea was weighed down due to yields for shorter term UK government bonds rising more rapidly than longer term bonds. The 'Interest Rates - Yield Compression' idea also fell as yields on US government debt rose more than their French counterparts as confidence grew that a trade deal could be struck with China. Several currency ideas were negative for the period, driven by the fall in the US dollar. The US dollar vs euro and Chinese renminbi ideas both detracted as the dollar weakened. In addition, their 'Currency - Japanese Yen vs Korean Won' idea also underperformed, as the yen fell.

Significant changes to implementation over the quarter include: removing the Japanese yen vs euro position from the Japanese yen vs Europe idea (leaving only the yen vs Swiss franc position); removing Canadian volatility from the short Canadian dollar idea, removing short German exposure from the European divergence idea; removing MSCI Asia ex-Japan equity beta and adding conditional Chinese equity beta to the selective Asia idea; adding euro vs US dollar volatility to the global FX volatility idea; and, removing Japanese equity volatility from the global equity volatility idea.

Market Commentary

The final quarter of the year saw a predominantly 'risk-on' environment with several factors driving the markets to close out the year on a high note. These included a breakthrough in trade talks between the US and China with the prospect of a 'phase one' deal being signed in January and a somewhat clearer picture for Brexit after a convincing victory for the Conservative Party in the UK general election. These combined with relatively stable corporate and economic data in the world's main economies to push equity markets higher.

Outlook

Invesco's central economic thesis outlines their thoughts about the global economy over the next two-to-three years. While they do not use it as a source of ideas for their portfolio, they must believe that each of the ideas that they hold is able to contribute a positive return against this backdrop. Invesco expect growth prospects to remain muted as corporate profits and capital expenditures slow. In addition, there are heightened risks from anti-globalisation rhetoric and a shift to bilateral trade agreements look to change the shape of economic growth.

They believe inflation will remain low, at least in part due to a lack of pricing power and the ongoing debt overhang. Additionally, the way the market is pricing inflation also suggests there is a limit to policy effectiveness in creating inflation, even after the recent shifts in monetary policy. Risks to this outlook include politically driven supply-side inflation and companies passing on wage increases.

They see yields staying lower for longer as coordinated policy easing continues. Monetary policy levers appear limited and other sources of stimulus are being sought. Invesco believe there is bond market contagion risk, as real and nominal yields increasingly turn negative. In addition, the potential for the US dollar to remain strong could act as a constraint for emerging markets.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP2049AU
AMP Flexible Super - Retirement account	AMP2051AU
AMP Flexible Super - Super account	AMP2052AU
CustomSuper	AMP2049AU
Flexible Lifetime - Allocated Pension	AMP2050AU
SignatureSuper	AMP4727AU
SignatureSuper Allocated Pension	AMP7122AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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